



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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June 27, 2003

TO: Agency Budget Officers

FROM: Candace Espeseth, Assistant Director for Budget
Office of Financial Management

**SUBJECT: INSTRUCTIONS FOR THE 2003 UPDATE TO THE ACTIVITY
INVENTORY**

The Office of Financial Management (OFM) will continue to use the Activity Inventory as a key budget development tool

OFM used Activity Inventory information extensively in developing the 2003-05 Governor's budget. OFM found the ability to think about how the current activities of government contribute to statewide results led to better statewide budget analysis and decisions. Activities also proved to be an effective way to communicate with the public and budget decision-makers about the services and value that the budget buys. OFM intends to continue to use Activity Inventory information as a key budget development tool.

A proviso in ESSB 5404 directs OFM to report to the Legislature by November 15, 2003 on:

“...the ten general priorities of government upon which the 2005-07 biennial budgets will be structured. Each priority must include a proposed set of cross agency activities with definitions and outcome measures. For historical comparisons, the 2001-03 expenditures and 2003-05 appropriations must be restated in this format and organized by priority, activity, fund source, and agency.”

Each year, OFM asks agencies to update the activity inventory to reflect the budget enacted by the Legislature. The 2003 update will also be used to meet the legislative requirement and to provide the baseline data that will be used in 2004 to begin development of the 2005-07 Budget.

Key Components of the Update

Practice in using the activities in budget development last year gave us a better sense of the “right” level of activity designation and description. Many activities seemed to be already defined at this level and will not need further refinement. Some descriptions, however, included several distinct activities; these may need to be refined. Other activity descriptions would probably be better combined to support more effective decision-making. **OFM will work with agency staff to determine the appropriate and most useful level of activity description and will provide each agency with specific direction in a separate letter on the needed changes to activity inventory definitions and descriptions.**

This year, OFM provides **guidance on how to treat administrative costs in the activity inventory**. We hope this approach will:

- Enable us to better explain how administrative costs are treated in the activity inventory.
- Help the activity inventory consistently provide a reasonably fair and accurate picture of total activity costs.
- Convey that some administrative type costs are directly related to activities and must be incurred if the activity is to achieve its result.
- Acknowledge there are some types of administrative costs that remain largely unaffected by changes to activity levels.
- Support an efficient and accurate-enough approach for adjusting administrative costs as activity costs change during budget development.

As in past updates, OFM asks agencies to **update description, dollar, and FTE information for the activities to reflect the 2003-05 budget**. Agencies will also be asked **to recast their 2001-03 expenditures into the agreed-upon activity structure**.

Instructions for the 2003 Update of the Activity Inventory

What is an activity? An activity is something an organization does to accomplish its goals and objectives. An activity consumes resources and produces a product, service, or result. One way to define activities is to consider how agency employees describe their jobs to their families and friends. On behalf of the state’s citizens, we basically want to know, “What do you do? For whom? Why is it valuable?”

For the Activity Inventory, an agency’s work should be broken down into its discrete functions or services. An activity description that requires several compound sentences or lists to accurately convey the work probably needs to be divided into several separate activities.

What is the activity inventory?

The Activity Inventory is a database that describes the major activities of each agency. For each activity the inventory should include:

- A brief description of the activity and its purpose.
- The expected results of the activity expressed as either an outcome/output measure (preferred) or an outcome description.
- The agency program(s) associated with the activity.
- The budget for the activity by fiscal year and account.
- The number of FTEs by fiscal year attributed to that activity.
- The Statewide Result area to which this activity most contributes, and also note other Statewide Result areas to which it may also contribute.

What is required in this update?

We are asking agencies to update the Agency Activity Inventory this spring:

- To disaggregate or combine current activities as requested by OFM.
- To clarify descriptions as requested by OFM.
- To adjust activity descriptions, dollars, and FTEs as necessary:
 - To reflect changes in the enacted 2003-05 budget.
 - To support the new administrative cost guidelines.
- To update descriptions of the expected outcomes or outputs for each activity.
- To confirm the statewide result area(s) to which each activity contributes.

We will also ask agencies to recast 2001-03 expenditures into the agreed-upon activity structure if that information is not already available.

Updates are due October 15

Updated activity inventory information is due to OFM no later than October 15, 2003 so that OFM can compile the information and submit it to the Legislature by November 15 as required by ESSB 5404. Send the updated template and the indirect cost allocation form to Linda Swanson at:

Office of Financial Management
PO Box 43113
Olympia, WA 98504-3113
linda.swanson@ofm.wa.gov

OFM will provide agencies with feedback and direction on current descriptions first

OFM is currently reviewing the current activity descriptions to identify those we would like to see modified in some way and those that should be combined or broken down further. Some agencies may have activity descriptions that do not need to be changed.

As part of this review, we will consult legislative staff and those who used the activity descriptions last fall. OFM analysts will discuss any proposed changes with agency staff. OFM will then send a letter to the agency confirming whether any activity description changes are required and whether the agency will need to provide recast data for the 2001-03 Biennium. Our intent is to complete the discussions and provide the confirmation letter to agencies by the end of July 2003, depending on the availability of agency and legislative staff.

What should the descriptions include?

In general, we are looking for descriptions that explain:

- What is the activity?
- What is its purpose?
- What does the agency actually do?
- Who receives the service?

The descriptions should also state whether the activity is required by state or federal law and include the citation. Please avoid the use of jargon and acronyms as the intended use of the activity inventory includes the general public and members of the Legislature, as well as OFM budget analysts.

OFM will provide agencies with current activity inventory information

OFM will send agencies an Excel template with the activity data and descriptions published in the Governor's budget. These templates should be used to submit the update to OFM. Data elements in the template that do not need to be updated will be marked.

Note the related program(s)

In the template, list the program number(s) of the program or programs in which each activity's costs would be found. When an activity crosses more than one program in an agency budgeted at the program or subprogram level, the agency should also indicate the dollars and FTEs for the activity associated with each program.

What should be included in the expected results section?

In the expected results section, describe the outcomes expected or desired as a result of performing the activity, preferably in quantitative terms. An outcome is the impact of agency activities on problems/issues they are designed to address.

Outputs—measures that describe the work accomplished—are also

acceptable, but less preferred than outcome information. If the agency is already tracking these measures, please note the actual performance obtained for the activity in the 2001-03 Biennium, if available.

If it is not possible to identify an appropriate outcome or output measure at this time, please provide a narrative description of the expected result.

Identify the estimated dollars and FTEs for each activity

OFM understands that agencies may not currently track financial and FTE information at the activity level in their accounting or budgeting systems. In these cases, we ask that agencies estimate the dollars and FTEs allocated to each activity.

- Please provide budgeted dollars by fiscal year and account for each activity.
- Please provide FTEs by fiscal year for each activity.

OFM will supply control totals

The template provided by OFM will contain dollar control totals for the 2001-03 and 2003-05 budgets by account and FTE for the agency. Agencies must ensure that the activity totals for their agency match these control totals before submitting the activity inventory to OFM.

How to treat administrative costs in the activity inventory

The activity inventory should provide a reasonable estimate of the full costs of activities. Part of the full cost of any activity would include related administrative costs that are essential to support the activity.

Administrative costs can be broken into two components: indirect costs and overhead costs. These instructions describe how to treat these two types of costs in the activity inventory.

Definitions

We realize many of the cost terms used here mean different things in different organizations. Please use the definitions below for purpose of developing activity inventory estimates.

Allocate indirect costs to activities

Indirect costs are administrative costs that are linked to two or more activities, are closely related to and tend to vary with activity level or size, but usually cannot be practically or economically direct-charged. These costs should be assigned to activities through cost allocation and included in the total cost of the activity in the activity inventory.

Types of costs that could be classified as indirect costs may vary from agency to agency, but here are some possible examples:

- Rent costs (if these are not already direct charged)
- Postage costs
- Software development and information technology support costs
- Other shared administrative costs that are closely related to activity levels and size

Every agency has some core administrative functions and costs regardless of the number or size its activities. These **overhead costs** usually support the entire organization, are not directly attributable to specific activities, and tend to be relatively fixed and not readily affected by fluctuations in activity levels. These costs should not be allocated to activities because they are not “caused” by the activity. Show these costs separately in one “Administration” activity in the activity inventory.

Show overhead costs as a separate “administration” activity

Types of costs that could be classified as overhead costs may vary from agency to agency, but here are some possible examples:

- Salary and support costs for the Agency Director
- Core portions of the agency accounting, budgeting, and personnel, communications, and receptionist functions
- Other shared administrative costs that are not closely related to activity levels and size

OFM is not concerned that each agency classifies the same type of cost in the same way. We most want to ensure that the activity costs include those administrative costs that are critical to support the activity and to ensure the activity result can be achieved.

Agencies with a limited number of activities may not need to break out administrative costs

If an agency has only a few activities and none of these activities is an administrative activity, OFM may not require the agency to break out overhead costs as a separate administration activity. OFM will confirm this in the July confirmation letter to the agency.

How should indirect costs be allocated to activities?

Indirect costs should be assigned to activities on some generally accepted cost allocation basis. We encourage agencies that already use a cost allocation methodology for some accounting purpose to use that method to allocate indirect costs to activities. Other possible approaches to allocating indirect costs to activities include, but are not limited to:

- Allocating by the number of FTEs in each activity.
- Allocating by the total dollars budgeted for each activity.
- Allocating by one or more bases that serve as good surrogates for the costs caused by each activity. For

example: IT staff costs by the number of PCs or rent costs by the number of square feet.

Provide allocation information to OFM

The allocated costs should be included in the total costs for the activities. Agencies must also provide OFM with information about the cost allocation approach:

- The total amount of indirect costs allocated
- A brief description of the allocation method selected
- The allocation percentage for each activity—that is the percentage of the total indirect cost the agency allocated to each activity
- The dollar amount allocated to each activity each fiscal year

Please use a format similar to that shown below.

Activity Inventory Indirect Cost Allocation Approach				
Agency ABC				
Date				
Allocation Method Description: Total indirect costs were allocated to activities based on the number of FTEs in each activity.				
	% Allocation Received	Dollars Allocated FY1	Dollars Allocated FY2	Total Allocated
Activity A	20%	\$200,000	\$250,000	\$450,000
Activity B	50%	\$500,000	\$625,000	\$1,125,000
Activity C	10%	\$100,000	\$125,000	\$225,000
Activity D	20%	\$200,000	\$250,000	\$450,000
Total	100%	\$1,000,000	\$1,250,000	\$2,250,000

Confirm the appropriate Statewide Result areas for each activity.

Statewide Results and key indicators are noted in the table below. For each activity:

- Please note which Statewide Result area is the primary result—the result to which the agency feels the activity most contributes—by confirming the appropriate Statewide Result number in the template
- Please indicate any other result areas to which the activity may also contribute. For example, a Workfirst activity may contribute to Statewide Result 5--Improving the security of Washington's vulnerable children and adults, and to Statewide Result 6-- Improving the economic vitality of businesses and individuals. Note the Result Area number for any that apply in the template.

Statewide Results	High-Level Indicators <i>(Note: these will be refined)</i>
1. Improve student achievement in elementary, middle, and high schools	<ul style="list-style-type: none"> • Reduced gaps in student achievement between ethnic and income groups • Improved test scores • Increased high school graduation rate
2. Improve the quality and productivity of our workforce	<ul style="list-style-type: none"> • Increase the ratio of newly prepared skilled workers to the number that employers need • Increased employment rate • High earnings level
3. Improve the value of a state college or university education	<ul style="list-style-type: none"> • Increased percentage of adults completing certificates/degrees • Increased student/graduate satisfaction • Increased number of students prepared to meet workforce needs
4. Improve the health of Washington citizens	<ul style="list-style-type: none"> • Improved health (index of epidemiological measures) • Individual self-assessment of health • Improved access to health care
5. Improve the security of Washington's vulnerable children and adults	<ul style="list-style-type: none"> • Increased percentage of vulnerable children/adults living above the poverty line • Increased percentage of vulnerable children/adults living in their own homes or community settings • Increased percentage of vulnerable children/adults attaining self-sufficiency
6. Improve the economic vitality of businesses and individuals	<ul style="list-style-type: none"> • Increase percentage of people employed • Increase percentage of prosperous individuals • Increase percentage of profitable businesses
7. Improve statewide mobility of people, goods, information and energy	<ul style="list-style-type: none"> • System sufficient to balance capacity and demand • Minimal delay and downtime • Fair and reasonable prices to consumers/ travelers
8. Improve the safety of people and property	<ul style="list-style-type: none"> • Reduction of preventable injury and loss from crime • Increased emergency response readiness • Increased citizen confidence of safety in communities
9. Improve the quality of Washington's natural resources	<ul style="list-style-type: none"> • Percentage of days with healthy air • Percentage of water bodies/sources that meet water quality standards • Reduced rate of land converted to urban areas • Improved trends in fish stocks and wildlife populations
10. Improve cultural and recreational opportunities throughout the state	<ul style="list-style-type: none"> • Increased availability/access • Increased participation • Increased satisfaction
11. Strengthen the ability of state government to achieve its results efficiently and effectively	